



Bill Analysis

Author: Gabriel

Sponsor:

Bill Number: AB 2142

Related Bills: See Legislative
History

Amended: April 6, 2022

SUBJECT

Turf Replacement Water Conservation Program Gross Income Exclusion

SUMMARY

This bill would allow a gross income exclusion for any amount received as a rebate, voucher, or other financial incentive issued by a public water system, local government, or state agency for participation in a turf replacement water conservation program.

This analysis only addresses the provisions of the bill that would impact the department's programs and operations.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The April 6, 2022, amendments modified provisions of the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL) to identify three different types of entities that could issue the incentive for participation in the turf replacement water conservation program.

The April 6, 2022, amendments resolved the previous implementation consideration, and one of the two policy considerations identified in the department's analysis of the bill as introduced February 15, 2022.

REASON FOR THE BILL

The reason for this bill is to eliminate disincentives to participation in efficient water conservation and improvement programs aimed at increasing water conservation or efficiency or improving storm water quality in California.

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ANALYSIS

Under the PITL and CTL, for taxable years beginning on or after January 1, 2022, and before January 1, 2027, this bill would exclude from gross income, any amount received as a rebate, voucher, or other financial incentive issued by a public water system, local government, or state agency for participation in a turf replacement water conservation program.

“Public water system” would mean a system for the provision of water for human consumption through pipes or other constructed conveyances that has 15 or more service connections or regularly serves at least 25 individuals daily at least 60 days out of the year. A public water system includes the following:

- Any collection, treatment, storage, and distribution facilities under control of the operator of the system that are used primarily in connection with the system.
- Any collection or pretreatment storage facilities not under the control of the operator that are used primarily in connection with the system.
- Any water system that treats water on behalf of one or more public water systems for the purpose of rendering it safe for human consumption.

The exclusion would remain in effect until December 1, 2027, and would be repealed as of that date.

For purposes of complying with Section 41 of the Revenue and Taxation Code (RTC), this bill would require the Department of Finance to provide the Legislature with an annual analysis to determine the effectiveness of the exclusion. For purposes of the report, the general prohibition against disclosure of taxpayer information applicable to the Franchise Tax Board would not apply.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2022, and before January 1, 2027.

Federal/State Law

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

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Implementation Considerations

None noted.

Technical Considerations

To provide clarity, the author may want to define "local government" and "state agency."

In Section 3(b)(2) of the bill, strike out "paragraph" and insert "subdivision".

Policy Considerations

This bill would create differences between federal and California tax law.

LEGISLATIVE HISTORY

AB 533 (Holden, et al., 2019/2020) and AB 2283 (Holden, 2017/2018), would have extended the exclusion from gross income allowed under AB 2434 from taxable years beginning before January 1, 2019, to taxable years beginning before January 1, 2024. AB 533 and AB 2283 did not pass out of the Assembly by the constitutional deadline.

AB 2434 (Gomez, Chapter 738, Statutes of 2014) allowed for taxable years beginning on or after January 1, 2014, and before January 1, 2019, an exclusion from gross income for amounts received as a rebate, voucher, or other financial incentive issued by a local water agency or supplier for participation in a turf removal water conservation program.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

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ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2142 as Amended April 6, 2022
Assumed Enactment after June 30, 2022

Fiscal Year	Revenue
2022-2023	-\$150,000
2023-2024	-\$100,000
2024-2025	-\$100,000

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

The March 18, 2022, Assembly Revenue and Taxation Committee analysis, included the following support and opposition.

Support

Association of California Water Agencies (Co-sponsor), California Water Efficiency Partnership (Co-sponsor) WaterNow Alliance (Co-sponsor), Alameda County Water District, American Society of Landscape Architects, California Council, Association of Professional Landscape Designers California Chapter, California Association of Sanitation Agencies, California Coastkeeper Alliance, California Municipal Utilities Association, California Special Districts Association, California Water Association, California Water Service, Calleguas Municipal Water District, City of Benicia Mayor Steve Young, City of Malibu Councilmember Mikke Pierson, City of Mountain View Councilmember Patricia Showalter, City of Petaluma Councilmember D'Lynda Fischer,

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City of Pleasanton Councilmember Julie A. Testa, City of Richmond Mayor Tom Butt, City of Roseville, City of Sacramento, Department of Utilities, City of Santa Rosa, City of Shasta Lake, City of Torrance Mayor Patrick Furey, Coachella Valley Water District, Coachella Valley Waterkeeper, Cucamonga Valley Water District, Diablo Water District, Dickinson Associates, East Valley Water District, Eastern Municipal Water District, Elsinore Valley Municipal Water District, Foothill Municipal Water District, Fresno Metropolitan Flood Control District, Indian Wells Valley Water District, Inland Empire Utilities Agency, Inland Empire Waterkeeper, Irvine Ranch Water District, League of California Cities, Mesa Water District, Metropolitan Water District of Southern California, Northern California Water Association, Orange County Coastkeeper, Rancho California Water District, San Francisco Baykeeper, San Juan Water District, Santa Clarita Valley Water Agency, Sonoma County Water Agency, Southern California Water Coalition, Three Valleys Municipal Water District, Upper San Gabriel Valley Water District Valley Center Municipal Water District, Valley of the Moon Water District Board Member Jon L. Foreman, Walnut Valley Water District.

Opposition

None listed.

ARGUMENTS

The Assembly Revenue and Taxation Committee analysis dated March 18, 2022, includes the following author's statement in support of AB 2142:

"California is a leader in policies that promote water efficiency, which is a critical tool to increase our ability to adapt to climate change. The State permanently exempts certain water efficiency rebates and not others which runs counter to our efforts to promote water efficiency. Additional conservation and efficiency is especially important now as we are in our second severe drought within a decade. AB 2142 will reinstate an important personal income tax exemption for California residents who do their part to adapt to our changing climate and conserve California's water."

LEGISLATIVE CONTACT

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